IBM

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June 23, 2008

Ms. Susan M. Hudson, Clerk
Public Service Board
112 State Street
Post Office Drawer 20
Montpelier, VT 05620-2701

Re: IBM Reply Comments on CLF/VPIRG Supplemental Filing Regarding EEU 2009-2011 Budget

Dear Ms. Hudson:

International Business Machines Corporation (IBM) offers the following reply comments regarding the June 6, 2008, supplemental filing by CLF and VPIRG on the 2009-2011 EEU budget.

In recommending an increase to two and three-quarters times the current EEU budget, CLF and VPIRG have referenced the statutory basis for capturing “all reasonably available, cost-effective energy efficiency savings.” It is clear from the context of the statute that these savings are not expected to be realized immediately, but are to be pursued “as circumstances and programs evolve.” Nor, as CLF and VPIRG pointed out, are all technically feasible savings actually achievable. In determining the appropriate EEU budget for 2009-2011, several factors must be considered, among them the following:

<u>Total cost of implementing efficiency measures</u>

The efficiency yields (MWh savings/$10,000 spent) and costs of efficiency resources ($/kWh) cited in the CLF/VPIRG filing do not include spending required by participants or third parties, above and beyond the energy efficiency charge, to implement efficiency measures. When these costs are included, the efficiency yields are approximately half the cited values. For example, the 2007 yield is 26 MWh/$10,000 on a total spending basis, versus 54 MWh/$10,000 when only EEU spending is considered. This is equivalent to total spending of $.377/kWh annualized savings, or $.063/kWh lifetime savings. All costs of obtaining efficiency resources must be considered in evaluating cost-effectiveness. These higher true costs support maintaining the EEU budget at the current level.

Relative return on investment

To be both reasonably available and cost-effective, energy efficiency measures must have a payback period or return on investment competitive with alternative business investments in efficiency or expansion. Requiring implementation of measures with longer payback periods and lower relative return on investment in order to partially recoup higher energy efficiency charges would divert investment from more productive projects, rendering Vermont businesses less competitive overall. Vermont's electric rates are already high compared to competitors elsewhere in the U.S. and in global markets. Rates should not be further increased by driving up the energy efficiency charge in pursuit of lower return measures that are not "reasonably available and cost-effective."

Opportunity for continued improvement in efficiency yields and reduction in operating costs

As VPIRG and CLF point out, the EEU's efficiency yield in 2007, expressed as MWh saved/$10,000 EEU spending, was significantly improved. Efficiency yield on a total spending basis improved as well, although not as much. However, the assertion that higher efficiency yield is a result of higher EEU spending is not supported by the data.

Prior to 2007, the highest efficiency yields were realized in 2000 and 2001, when the EEU budget was lowest. As EEU spending increased by 53% over the period 2002-2006, the efficiency yield dropped to a lower level and then remained essentially flat. The improvement in 2007 is a positive development, and points to additional opportunity for yield enhancement and operating cost reduction.

The Efficiency Vermont 2007 draft report shows that 41% of the $19M spent by the EEU last year went to operating costs, while only 38% was spent on efficiency project incentives and 21% on technical assistance. Operating costs climb to 45% when the customer credit program is excluded. Meanwhile participants themselves paid nearly $20M, in addition to the energy efficiency charge, to implement efficiency projects.

The large portion of the budget spent on operating costs represents an improvement opportunity. Just as businesses must continuously improve productivity and efficiency to remain viable, we should expect an explicit focus on improving the efficiency and cost-effectiveness of the EEU. Reducing administrative overhead and other indirect costs would increase the funds available for measure implementation without increasing the overall EEU budget.

Recent budget increases

Efficiency Vermont's program delivery has not kept pace with the near doubling of the budget since 2006. In 2007 the EEU was unable to spend 19% of its annual budget.

Authorized efficiency spending for 2008 is another 28% above the 2007 budget. The current budget already represents a significant implementation challenge and a substantial ongoing investment in demand-side management. Since results from this level of investment have yet to be fully realized, future gains in energy efficiency should be greater than those so far obtained at this higher budget level. The EEU budget should be funded at the current level for the 2009-2011 period, with adjustments for inflation as appropriate.

IBM appreciates the brief extension for filing these comments. If you have any questions, you may contact me at jmdoyle@us.ibm.com or 769-4706. Thank you for your consideration.

Sincerely,

Janet Doyle

Janet Doyle
Energy and Environmental Programs

cc: EEU E-mail Service List